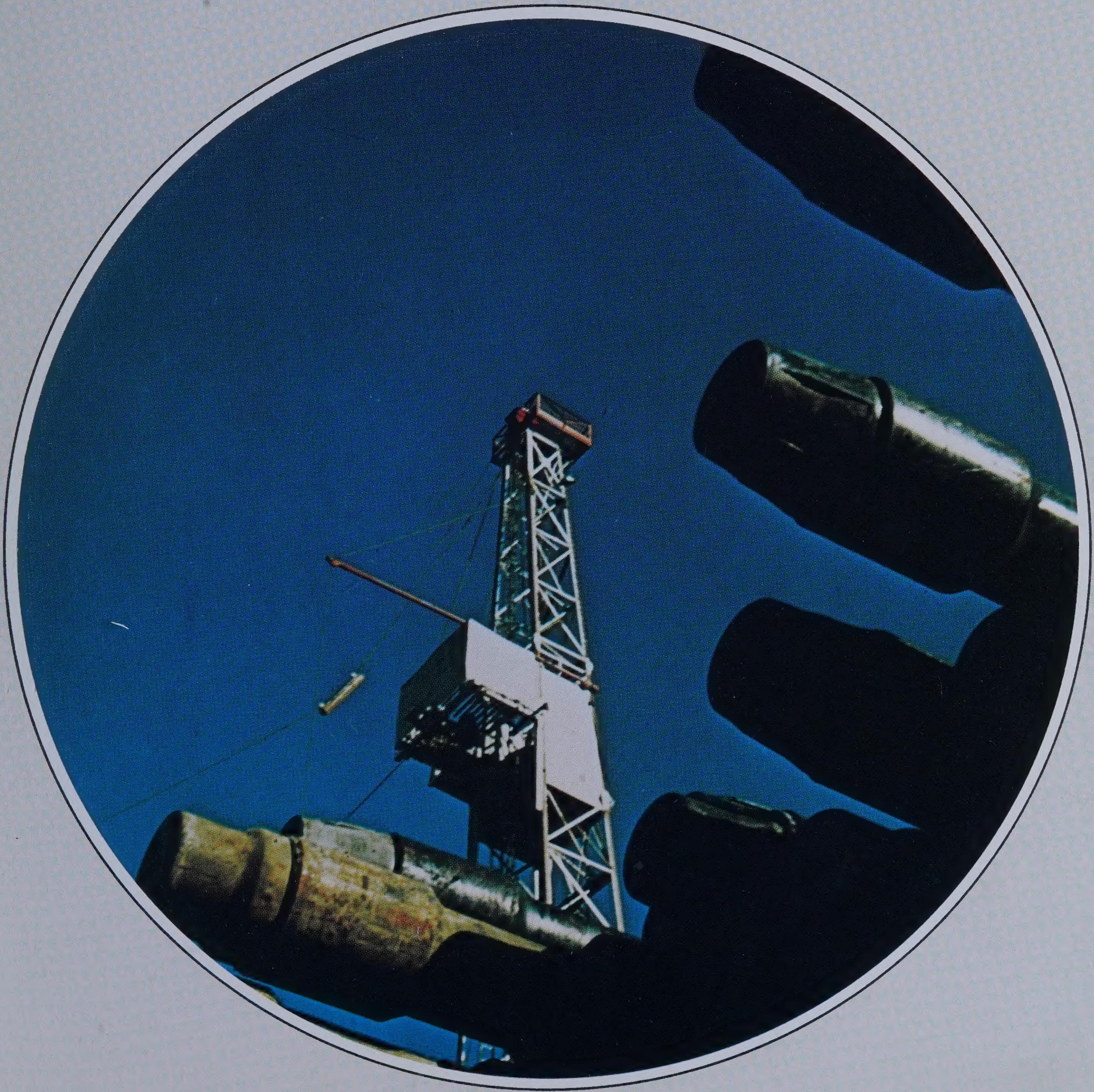
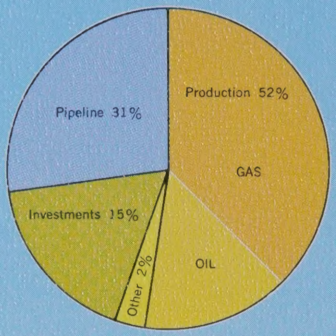
NORTH CANADIAN

OILS LIMITED □ A NATURAL RESOURCE COMPANY

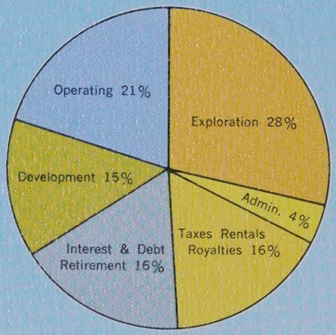


1973 ANNUAL REPORT

REVENUE



EXPENDITURES



THE YEAR AT A GLANCE

Financial

	1973	1972
Gross Revenue (before royalty)	$ 6,139,594	$ 5,167,317
Cash Flow (after cost of product, operating, administrative and interest expenses)	3,421,639	2,904,471
Net Income	2,293,748	2,109,985*
Per Share (after provision for preferred share dividend)	39¢	35¢*
Exploration Expenditures	1,922,000	1,034,000
Development Expenditures	968,000	1,427,000
Shareholders' Equity	25,720,753	23,647,884*

* Restated

Operating		
Natural Gas Sales - billion cubic feet		
Production	14.5	14.3
Pipeline	4.9	4.8
Total Sales	19.4	19.1
Average Per day - million cubic feet	53.2	52.4
Oil Production - barrels	226,469	68,919

	Gross	Net
Estimated Proven Recoverable Reserves — December 31, 1973		
Gas - billion cubic feet	771	656
Oil - barrels	712,400	606,700

	Gross	Net
Land Holdings - December 31, 1973		
Developed acres	228,120	184,110
Undeveloped acres	2,828,884	710,300
Total	3,057,004	894,410

ANNUAL MEETING

The 1974 annual meeting of shareholders will be held Thursday, May 2, 1974 at 1:30 p.m., Calgary Inn, Calgary, Alberta, Canada. A formal notice of this meeting together with proxy statement and form of proxy, has been mailed with this report. All shareholders who are unable to attend the meeting are urged to sign and return their proxies as soon as possible.

Camrof

Statement of Income

For The Six Months Ended June 30, 1973

(with comparative figures for 1972)

	1973	1972
Revenue		
Sales of gas and oil	$2,504,000	$2,048,000
Less royalties	195,000	119,000
	2,309,000	1,929,000
Investment interest	468,000	511,000
Building rental and miscellaneous	73,000	58,000
	2,850,000	2,498,000
Expenses		
Operating	$ 798,000	$ 731,000
Administration and general	148,000	123,000
Interest	221,000	208,000
	1,167,000	1,062,000
	1,683,000	1,436,000
Depreciation & depletion	562,000	334,000
Income before income taxes	1,121,000	1,102,000
Provision for income taxes		
Current	100,000	140,000
Deferred	10,000	20,000
Net income for Period	1,011,000	942,000
Per Share	17¢	15 3/4¢

The above financial information is unaudited.

AR18

North Canadian Oils Limited
640 Seventh Avenue S.W.
Calgary, Alberta T2P 0Y5

CALGARY ALBERTA -2 VIII '73

The Editor
Globe & Mail Report on Business
140 King Street West
Toronto 1, Ontario

FOOTHILL PRINTERS LIMITED · CALGARY
LITHOGRAPHED IN CANADA

NORTH CANADIAN

Oils Limited □ A Natural Resource Company

INTERIM REPORT

for the six months ended
JUNE 30, 1973

TO THE SHAREHOLDERS:

Revenue and earnings for the year to date continue ahead of comparative figures for 1972 despite a higher than anticipated seasonal reduction in gas sales during the second quarter. Net income for the six months ending June 30 was $1,011,000 or 17¢ per common share. This compares to $942,000 or 15¢ per share for the same period in the previous year. Cash generated from operations was $1,683,000, an increase of $247,000.

The Company's current exploratory ventures at Nose Creek, Alberta, and Scatter River, British Columbia, are drilling at approximately 17,000 feet and 11,000 feet respectively. At Nose Creek an encouraging gas show has been encountered in the Mississippian section, the first of several primary objectives. Because of the risks involved in running a deep open hole test, the zone will not be evaluated until after the well has reached total depth. It is expected that the results of both wells will be determined within the next thirty to sixty days.

In addition to the two deep foothills wells, North Canadian drilled or participated in the drilling of three other exploratory wells in Alberta during the second quarter. The first, in which the Company has a one third interest, was cased through a shallow gas zone after failure to find hydrocarbons in the primary objective at 3,200 feet. The other two were drilled to test the Milk River gas formation on the recently purchased 7,200 acre permit adjoining North Canadian's producing properties in the Hilda Schuler area. These will be completed later in the year.

North Canadian, together with Asamera Oil Corporation and Peyto Oils Ltd., has applied for an exploration contract covering seven million acres in the Bengal Basin offshore India, an area believed to offer excellent potential for the discovery of hydrocarbons. The Company has an undivided 45 percent interest in this venture. A decision by the Indian Government is expected before the year end.

A development of significant importance since the mailing of the first quarter interim report was the acceptance, by the Company, of an offer by TransCanada PipeLines for a substantial increase in the price paid North Canadian for its gas production at Hilda Schuler (Alberta). Effective January 1st, 1974, the price will be increased from 14¢ to 26¢ per Mcf, and will escalate at the rate of 1¢ a year. The price is again subject to redetermination in 1976. In view of the new price structure, plans have been completed to augment the Hilda Schuler production with production from the shallower Milk River gas zone which is known to be present on the Company's lands. It is anticipated that a minimum of twenty new wells will be drilled and placed on production at Hilda Schuler by the time the new price schedule goes into effect. This should materially increase the volume of sales.

Further development of the salt cavern storage project in Nova Scotia has been temporarily delayed pending clarification of government policy pertaining to trans-shipment of petroleum products. It is believed, however, that the matter will be satisfactorily resolved and that work on the project will be recommenced shortly.

July 29, 1973

Robert F. Ruben

ROBERT F. RUBEN
President

The Common shares of North Canadian Oils are exempt from the U.S. interest equalization tax. They are listed on the American and Toronto Stock Exchanges.

Statement of Source and Use of Funds

For The Six Months Ended June 30, 1973

(with comparative figures for 1972)

	1973	1972
Source of Funds		
Operations:		
Net income for period .	$1,011,000	$ 942,000
Add: items not involving a current outlay of funds:		
Depreciation & depletion .	562,000	334,000
Deferred income taxes .	10,000	20,000
Funds provided from operations	1,583,000	1,296,000
Reduction in other assets	28,000	6,000
Proceeds on issue of common shares . . .	19,000	9,000
	1,630,000	1,311,000
Use of Funds		
Additions to property, plant and equipment	$1,401,000	$ 798,000
Addition to investment . .	11,000	119,000
Reduction of long-term debt	285,000	10,000
Redemption of preferred shares	74,000	53,000
Preferred share dividend .	56,000	60,000
	1,827,000	1,040,000
Increase (Decrease) in working capital . . .	(197,000)	271,000
Working capital at January 1 .	698,000	717,000
Working capital at June 30 .	501,000	988,000

ROBERT F. RUBEN,
President

TO THE SHAREHOLDERS:

Record production revenue in 1973 resulted in new highs for the Company in total revenue, cash flow and net income. Cash flow, up 18%, exceeded $3 million for the first time.

Highlighting North Canadian's exploration and development programs were the Company's participation in the discovery of a new gas field and the successful development of a second gas producing formation on Company owned lands at Hilda-Schuler. The discovery is located in the Dixonville area of northwestern Alberta. The size of the field has not yet been determined but the results of the wells drilled to date are very encouraging. North Canadian has a significant working interest in approximately 10 thousand acres in the area.

At Hilda-Schuler (Alberta), the Company established an estimated 75 billion cubic feet of recoverable gas reserves in the previously untested Milk River formation. Production from Company lands in this area has in the past been entirely from the deeper Medicine Hat sand. As a result of the performance of the 18 Milk River wells which have been completed, a full development program is planned for 1974.

1973 was a period of uncertainty and constant change for the petroleum industry. In reaction to a challenge by the federal government for control of provincially owned petroleum resources, every oil producing province has, in the past year, implemented sweeping changes in legislation governing the industry, some of which appear rather hastily conceived. Marked by frequent confrontations between industry and government and between governments themselves, the past several months has been a difficult period of adjustment for everyone concerned. Though there are still fundamental issues to be settled, there are indications the worst may be over and that industry-government relationships could return to a state of near normalcy in 1974.

The long awaited increase in gas royalty has now been announced by the Province of Alberta, the last of the producing provinces to set new gas royalties. In view of the expectation of an appreciable rise in the wellhead price of gas, the higher royalty charges do not appear unmanageable.

There have been indications of serious concern on the part of the Company's shareholders and others as to the possible adverse effect on North Canadian Oil of Saskatchewan's recently enacted "Bill 42." This highly controversial legislation presents a serious problem for the oil producers in the province and the owners of freehold mineral rights. It does not however, apply to the production of gas from Crown leases and thus has no effect on the Company or its operations.

Because of the rapidly increasing demand for high grade coal the Company will, in 1974, be looking with renewed interest at it's extensive coal deposits. Located on rail at Robb, Alberta, this once active mining property has been estimated to contain a minimum of 50 million tons of high grade, low sulfur thermal coal.

As external influences play an ever increasing role in the affairs of the industry, the year ahead will be a challenging one. Times of change, however, are often times of opportunity for those in a position to recognize and take advantage of them. North Canadian, with its strength in asset value and cash flow, is in such a position. The prime objective of management in 1974 will be to seek out new investment opportunities which will enhance the value of the shareholder's equity in the Company.

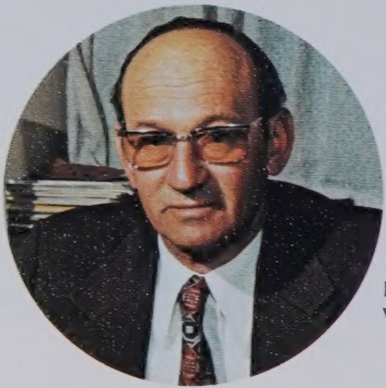
Your management and directors acknowledge with gratitude the dedicated manner in which the Company's employees fulfilled their responsibilities throughout the past year.

Respectfully submitted on behalf of the Board of Directors.

Robert F. Ruben

March 8, 1974.

ROBERT F. RUBEN,
President



NATHAN GOODMAN
Vice-President, Production

NORTH CANADIAN OPERATED GAS FIELDS

PRODUCTION

Company owned wells produced 14.5 billion cubic feet of gas in 1973 for sale to Trans-Canada Pipe Lines and The Saskatchewan Power Corporation. Proceeds from the sale of gas production, up 11% for the year, contributed 39% of North Canadian's total income.

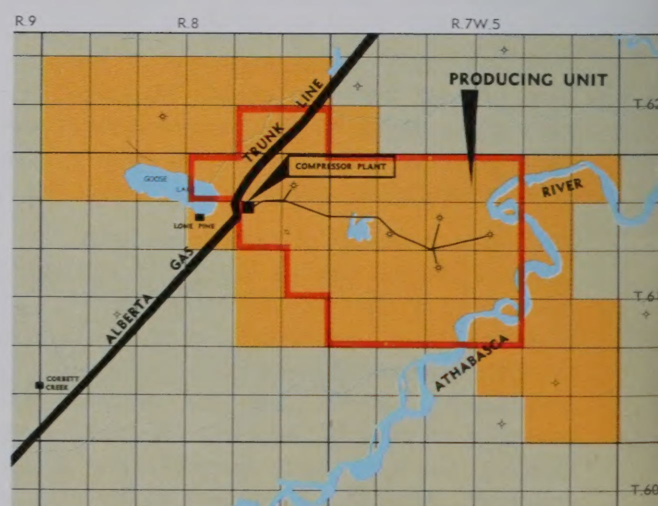
Oil production in 1973 averaged 620 barrels a day, up sharply from a daily average of 188 barrels in 1972. Most of the increase in oil production was due to the acquisition by the Company of a short term production sub-lease.

ATLEE-BUFFALO FIELD, ALBERTA

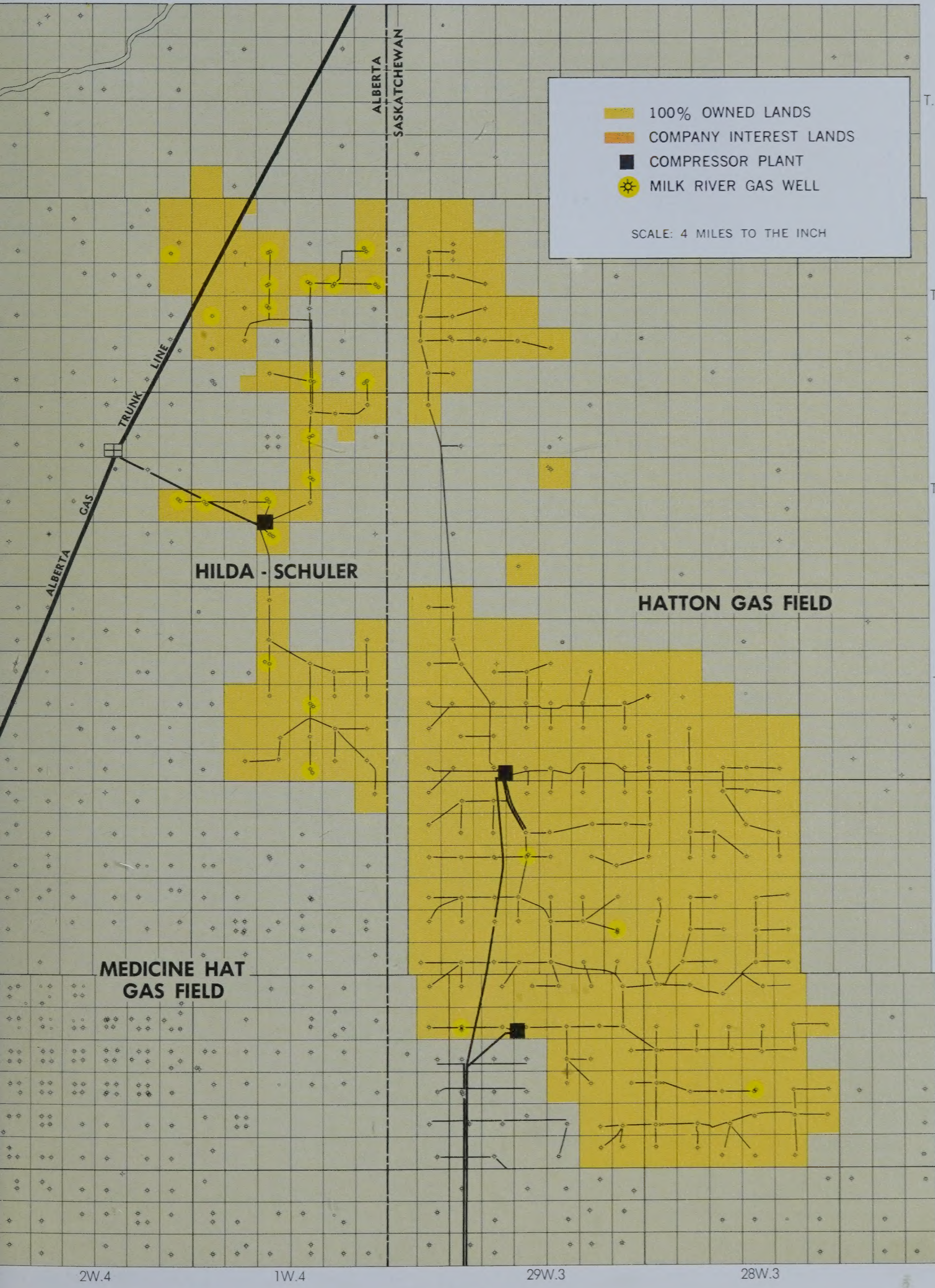
DEVELOPMENT

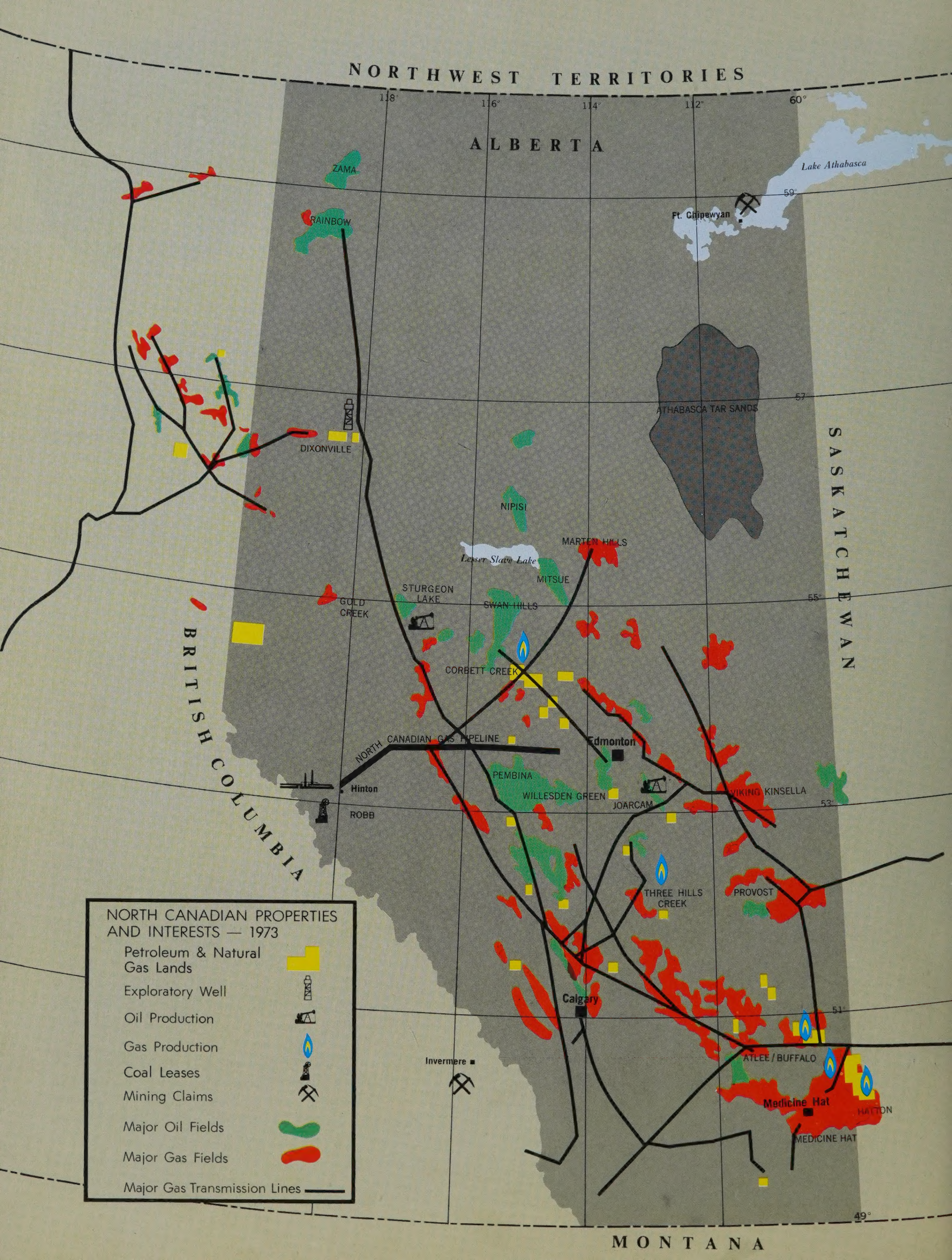
As a part of a continuing program for the development of its producing properties, the Company drilled a total of 33 Medicine Hat and Milk River gas wells in 1973, all of which are now on production. Highlighting the program was the success of 18 Milk River wells drilled at Hilda-Schuler (Alberta), the first Milk River wells to be drilled on Company lands at this location. On the basis of the demonstrated performance of these wells, plans have been made for the drilling in 1974 of another 20 wells and the installation of additional compression facilities to handle the increased production.

North Canadian now owns and operates a total of 286 gas wells in the provinces of Alberta and Saskatchewan, and is the designated operator of the Corbett Creek Viking Gas Unit in which it holds a 44.4% interest. The Company has an estimated 298 proven drilling locations for future development.



CORBETT CREEK VIKING FIELD, ALBERTA


100% OWNED LANDS
COMPANY INTEREST LANDS
COMPRESSOR PLANT
MILK RIVER GAS WELL
SCALE: 4 MILES TO THE INCH
ALBERTA
SASKATCHEWAN
ALBERTA GAS TRUNK LINE
HILDA - SCHULER
HATTON GAS FIELD
MEDICINE HAT GAS FIELD
T. 19
T. 18
T. 17
T. 16
T. 15
T. 14
2W.4
1W.4
29W.3
28W.3


NORTHWEST TERRITORIES
ALBERTA
SASKATCHEWAN
BRITISH COLUMBIA
MONTANA
118°
116°
114°
112°
60°
59°
57°
55°
53°
51°
49°
Lake Athabasca
Ft. Chipewyan
ZAMA
RAINBOW
DIXONVILLE
ATHABASCA TAR SANDS
NIPISI
Lesser Slave Lake
MARTEN HILLS
MITSUE
STURGEON LAKE
SWAN HILLS
GOLD CREEK
CORBETT CREEK
NORTH CANADIAN GAS PIPELINE
Edmonton
PEMBINA
WILLESDEN GREEN
JOARCAM
VIKING KINSELLA
Hinton
ROBB
THREE HILLS CREEK
PROVOST
Calgary
Invermere
ATLEE/BUFFALO
Medicine Hat
HATTON
MEDICINE HAT
NORTH CANADIAN PROPERTIES AND INTERESTS — 1973
Petroleum & Natural Gas Lands
Exploratory Well
Oil Production
Gas Production
Coal Leases
Mining Claims
Major Oil Fields
Major Gas Fields
Major Gas Transmission Lines

JAMES W. DOWDEN
Vice-President, Exploration

EXPLORATION

North Canadian participated in the drilling of eleven exploratory wells and acquired interests in 112,000 acres of undeveloped lands in Western Canada during 1973. The drilling program resulted in the discovery of new gas reserves for the Company in two areas of Alberta, Dixonville and West Hilda. The Company's exploration land holdings in western Canada totaled 2,828,884 gross acres or 710,300 net acres, at the end of the year.

At Dixonville, in northwestern Alberta, the Company has a 50% interest in the discovery well which found gas in the Bluesky formation at a depth of 2,700 feet. When completed, the well tested at an open flow rate of 9.2 million cubic feet of gas per day. The Company also participated in two additional exploratory wells which successfully extended the Bluesky reservoir and discovered gas in a new zone underlying the Bluesky. One was completed with an open flow rate of 11 million cubic feet of gas per day and the other, after testing gas, was cased awaiting completion. It is anticipated that a fourth well, now drilling, will extend both reservoirs. It will also evaluate a third possible gas zone believed to be present in the area. North Canadian owns varying working interests in 10,000 acres at Dixonville. Alberta Gas Trunk Line Company has plans for the construction of a pipeline which would run within two miles of this field.

Two wells, drilled three miles apart at West Hilda, successfully tested the Milk River gas zone on a 7,200 acre permit acquired by the Company in 1972. Based on the results of these wells, it is estimated that the permit lands, which immediately adjoin North Canadian's producing acreage at Hilda - Schuler, Alberta, will add 25 billion cubic feet of gas to the Company's proven recoverable reserves in that area.

Two deep foothills exploratory wells, in which North Canadian had an interest, were abandoned during 1973. The Nose Creek well, which reached a final depth of 18,677 feet, encountered gas shows in several horizons. Because of the size of the structure and the evidence of gas, North Canadian is retaining its interest in the Nose Creek lands in anticipation of renewed activity in the area. The Company considers the deep basin and the foothills to be prime areas for the discovery of major gas reserves in Alberta and will continue to apply a portion of the exploration budget in this region.

North Canadian owns an undivided 25% interest in approximately 2.6 million acres, located along the Mackenzie River in the Northwest Territories. A large block of these lands have for the past two years been farmed out to a consortium of companies who were given an option to earn up to a 50% interest in the block through a progressive drilling program. After drilling one unsuccessful well, the farmors relinquished their option. Meanwhile, certain permits within the block are reaching the end of their final term and the Company and its partners, headed by Mobil Oil, have elected to go to lease on certain lands which it is believed merit further exploration. These prospective lands are located along the route of the proposed pipeline from the gas rich Mackenzie Delta area.

North Canadian is a member of a group of companies which has an application now pending for the concession to explore the offshore portion of the Bengal Basin in India, an area of 7 million acres. The Company also has an interest in another group which has applied for a 2 million acre concession to explore in the same basin, offshore Bangladesh. The area is believed to be one of the most promising undrilled regions in the world. Because of strong competition for the concessions, the Company cannot predict the probability of the applications being successful nor approximate a date when the contracts will be awarded. During 1973, it was learned that the Company's applications for concessions offshore Italy and Spain were unsuccessful.

North Canadian and Murphy Oil Company Ltd. share the exclusive right over a large area of Cape Breton, Nova Scotia, to explore for salt

deposits suitable for the leaching of storage caverns. The exploration site is adjacent to the ice free super-port at the Strait of Canso. The first exploratory core hole, drilled by North Canadian in 1972, discovered thick pure salt which appears ideal for the leaching of large storage caverns. Plans are now being completed to drill a second core hole to further define the extent and quality of the salt in the area. Changes in the energy situation during the last year have confirmed the opinion of the Company that underground storage for large volumes of liquefied petroleum gases and other energy related commodities will be in great demand on the eastern seaboard. It is anticipated that the exploration phase of this very interesting project will be concluded in 1974.

COAL AND MINING PROPERTIES

North Canadian owns the rights to extensive coal deposits on the Coal Branch of the Canadian National Railway at Robb, Alberta. The property, which covers an area of approximately 1,700 acres, is estimated to contain upward of 50 million tons of good quality, low sulfur thermal coal.

The mining property was purchased in 1952 in conjunction with the acquisition of North Western Pulp & Power Ltd. Mining was suspended when it was decided to use natural gas rather than coal for the new pulp mill at Hinton. When in operation, the coal mining plant had a capacity of over 200 thousand tons a year. Two million dollars had been invested in the property prior to its purchase by North Canadian.

In the Lake Windermere area of southeastern British Columbia, North Canadian has a 50% interest in 40 lode mineral claims. Initial exploratory efforts, sparked by the finding of rich surface samples of silver and lead, failed to locate a commercial ore deposit. There has recently been a renewed interest in the area as a result of escalating metal prices.

The Company has a 100% interest in a group of quartz mineral leases covering 3,400 acres in the Lake Athabasca region of northeastern Alberta, a prospective uranium area. Surface surveys conducted in 1970 gave sufficient encouragement to justify retaining selected leases.

W. K. MILLER
Manager,
Gas Transmission

PIPELINE

Net operating revenue from the Company's Hinton pipeline showed an increase of approximately 4% in 1973. Total sales volume for the year was 4.9 billion cubic feet, an average of 13.4 MMcf a day. Built in 1954 to service the Company's fuel contract with North Western Pulp and Power Limited at Hinton, the 136 mile line now also supplies a number of other users along its route.

This valuable asset contributed approximately 31% of the Company's gross revenue in 1973.

Gas gathering line under construction
Atlee - Buffalo, Alberta

CHARLES K. LOUGH
Secretary-Treasurer

FINANCIAL

Effective January 1, 1973, North Canadian Oils adopted the full cost method of accounting. This method, which is explained in detail in Note #1 to the financial statements, is now used by the great majority of the independent oil companies in Canada and the United States. Where shown in this report, prior year's financial figures have been restated to reflect this change.

Revenue

The Company's total revenue for the year was a record $6,140,000, an increase of 19% over the equivalent figure of $5,167,000 in 1972. The gain is the result of higher gas prices, increased pipeline revenue and a substantial increase in oil production due primarily to the acquisition by the Company of a short term source of production in late 1972.

Expenses

Operating and administrative expenses showed a sharp rise in 1973, a reflection of the extreme inflationary pressure experienced throughout the year. While little relief is expected for 1974, a continued effort will be made to hold further cost increases to a minimum. Higher depletion expense is primarily attributable to the increase in oil production.

Cash Flow

Cash generated from operations was $3,422,000 or 61¢ a share compared to $2,904,000 or 52¢ a share in 1972, an increase of 18%. This figure is the amount of money available from within the Company for exploration and development, debt retirement, the payment of preferred share dividends and income tax.

Net Income

The Company's net income after provision for current and deferred income tax amounted to $2,294,000 or 39¢ per common share. This is an increase of 8% over the restated 1972 figure of $2,110,000 or 35¢ per common share.

Working Capital and Long Term Debt

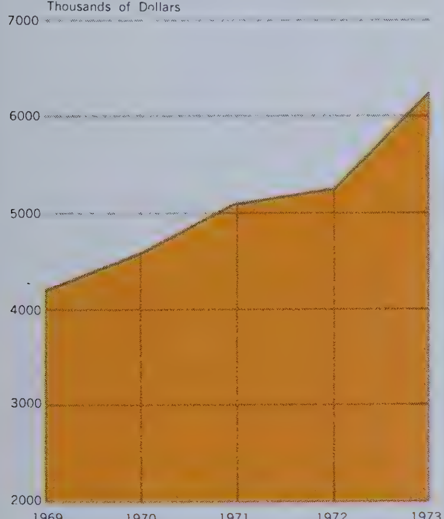
The Company's net working capital at the year end was $328,000 compared to a working capital of $698,000 at the beginning of the year. The reduction is the result of a decision by management to apply available surplus cash to an accelerated reduction of the Company's outstanding bank loans during a period of unusually high interest rates.

Long term debt was reduced from $6,712,000 to $6,094,000 during the year.

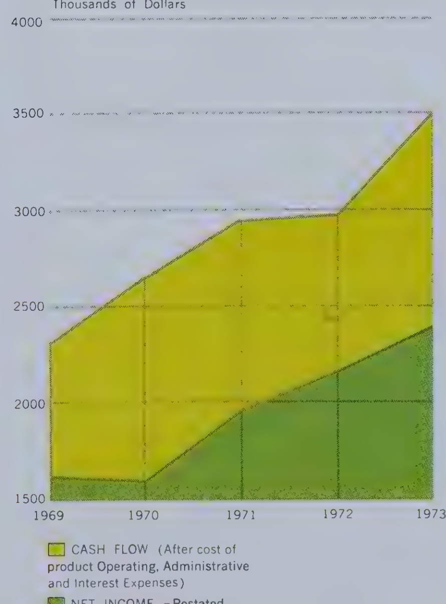
Capital Expenditures

Cost of the Company's expanded exploration program in 1973 was $1,922,000, an increase of 86% over the $1,034,000 spent on exploration the previous year. Development expenditures were reduced by 47% from $1,427,000 to $968,000.

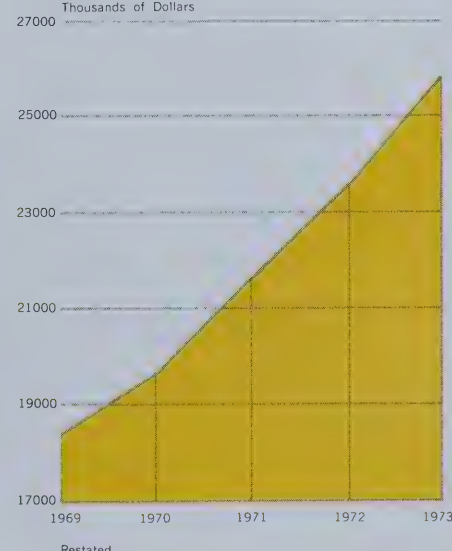
GROSS REVENUES
Thousands of Dollars



NET INCOME AND CASH FLOW
Thousands of Dollars



SHAREHOLDERS' EQUITY
Thousands of Dollars



NORTH CANADIAN OILS LIMITED

STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 1973
(with comparative figures for 1972)

	1973	1972
Revenue:		
Gross operating revenues	$ 5,072,229	$ 4,081,239
Less royalties	407,108	233,360
	4,665,121	3,847,879
Interest income	917,549	929,931
Building revenue and miscellaneous income	134,080	137,272
Gain on foreign exchange	15,736	18,875
	5,732,486	4,933,957
Expenses:		
Operating	1,645,970	1,405,774
Administrative (Note 8)	234,833	214,258
Interest on long-term debt	430,044	409,454
Depreciation	284,878	318,000
Depletion	599,013	294,000
	3,194,738	2,641,486
Income before income taxes	2,537,748	2,292,471
Income taxes (Note 7):		
Current	183,000	134,486
Deferred	61,000	48,000
	244,000	182,486
Net income (Note 7)	$ 2,293,748	$ 2,109,985
Net income per common share (after preferred dividends)	$ .39	$ .35

See accompanying notes to financial statements.

NORTH CANADIAN OILS LIMITED

STATEMENT OF SOURCE AND USE OF FUNDS

YEAR ENDED DECEMBER 31, 1973

(with comparative figures for 1972)

	1973	1972
Source of funds:		
Net income	$ 2,293,748	$ 2,109,985
Add non-cash items included in net income:		
Depreciation and depletion	883,891	612,000
Deferred income taxes	61,000	48,000
Funds provided from operations	3,238,639	2,769,985
Bank loan	800,000	500,000
Proceeds on sale of fixed assets	12,015	17,578
Proceeds on issue of common shares	47,465	89,517
Total funds provided	4,098,119	3,377,080
Use of funds:		
Expenditures for property, plant and equipment	2,808,430	2,504,106
Investment in and advances to non-controlled companies	10,361	119,063
Increase in other assets	(36,834)	78,458
Reduction of bank loan and other long-term debt	1,418,335	468,441
Dividends on preferred shares	109,844	118,952
Redemption of preferred shares	158,500	107,000
Total funds used	4,468,636	3,396,020
Decrease in working capital	370,517	18,940
Working capital, beginning of year	698,461	717,401
Working capital, end of year	$ 327,944	$ 698,461

See accompanying notes to financial statements.

NORTH CANADIAN OILS LIMITED

BALANCE SHEET

DECEMBER 31, 1973

(with comparative figures for 1972)

ASSETS

	1973	1972
Current assets:		
Cash	$ 315,579	$ 364,016
Accrued interest receivable	492,801	493,423
Accounts receivable	737,951	565,125
Receiver General for Canada	—	150,000
Prepaid expenses	18,328	21,262
Total current assets	1,564,659	1,593,826
6% St. Regis Paper Company notes receivable, due January 1, 1984 (no quoted market value) (Note 2)	15,000,000	15,000,000
Investment in and advances to non-controlled companies, at cost (Note 3)	1,165,299	1,154,938
Property, plant and equipment (Notes 1 and 4):		
At cost	22,919,079	20,145,157
Accumulated depreciation and depletion	6,891,765	6,030,367
	16,027,314	14,114,790
Other assets, at cost	179,150	215,984
	$33,936,422	$32,079,538

On behalf of the Board:

Robert F. Ruben, Director

James W. Dowden, Director

See accompanying notes to financial statements.

LIABILITIES

	1973	1972
Current liabilities:		
Accounts payable and accrued liabilities . . .	$ 737,058	$ 441,957
Income taxes payable	48,000	—
Long-term debt due within one year . . .	451,657	453,408
Total current liabilities	1,236,715	895,365
Long-term debt (Note 5)	6,093,954	6,712,289
Deferred income taxes (Notes 1 and 7) . . .	885,000	824,000
Shareholders' equity:		
Capital stock (Note 6):		
5½% cumulative redeemable preferred shares, par value $50 each; authorized 70,000 shares, issued 39,042 shares (1972 - 42,212 shares)	1,952,100	2,110,600
Common shares, par value $.25 each; authorized 7,500,000 shares, issued 5,626,665 shares (1972 - 5,618,329 shares)	1,406,666	1,404,582
	3,358,766	3,515,182
Capital redemption reserve fund	1,547,900	1,389,400
Contributed surplus (Note 6)	1,881,701	1,836,320
Retained earnings	18,932,386	16,906,982
	25,720,753	23,647,884
	$33,936,422	$32,079,538

See accompanying notes to financial statements.

STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1973
(with comparative figures for 1972)

	1973	1972
Balance, January 1		
As previously reported	$16,374,676	$14,570,622
Retroactive adjustments (Note 1):		
Change in accounting practice	627,306	517,327
Deferred income taxes	(95,000)	(65,000)
As restated	16,906,982	15,022,949
Net income for the year	2,293,748	2,109,985
	19,200,730	17,132,934
Deduct:		
Dividends on preferred shares	109,844	118,952
Transfer to capital redemption reserve fund	158,500	107,000
	268,344	225,952
Balance, December 31	$18,932,386	$16,906,982

STATEMENT OF CAPITAL REDEMPTION RESERVE FUND

YEAR ENDED DECEMBER 31, 1973
(with comparative figures for 1972)

	1973	1972
Balance, January 1	$ 1,389,400	$ 1,282,400
Transfer from retained earnings	158,500	107,000
Balance, December 31	$ 1,547,900	$ 1,389,400

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1973

1. ACCOUNTING PRINCIPLES:

Prior to 1973 the Company followed the practice of capitalizing all leasehold acquisition, exploratory and development costs and lease rentals on undeveloped properties. Costs pertaining to areas which were not productive or contiguous to productive areas were written off against income.

In 1973 the Company adopted the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and development of oil and gas reserves are capitalized. These costs include leasehold acquisition costs, geological and geophysical expenses, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells, oil and gas field production equipment, gathering lines, compressor and gas plants and overhead expenses related to exploration activities. All such costs are being amortized on a composite unit-of-production method based on estimated proven recoverable reserves with the exception of the developed sub-lease. The sub-lease is depleted over its term which is estimated to be less than two years. The office building and other equipment are depreciated over the useful lives of the assets, whereas the pipeline is being depreciated over the life of the existing gas contract.

The change in accounting practice is retroactive to January 1, 1969, prior to which time non-productive costs charged to income were not material. The retroactive adoption of the full cost method of accounting resulted in a net increase in property, plant and equipment of $627,306 at January 1, 1973, ($517,327 at January 1, 1972) and an increase in deferred tax of $95,000 at January 1, 1973 ($65,000 at January 1, 1972). These changes are reflected in the corresponding increase in the previously reported retained earnings from $16,374,676 to $16,906,982 ($14,570,622 to $15,022,949 at January 1, 1972).

The adoption of the full cost method of accounting resulted in an increase in the Company's net income over that previously reported. Net income for 1972 is now reported at $2,109,985 or 35¢ per common share as compared with previously reported net income of $2,030,006 or 34¢ per common share. The net income for 1973 is $2,293,748 or 39¢ per common share. Net income would have been $1,794,000 or 30¢ per common share if effect had not been given to the change in the method of accounting for exploration and development expenditures.

2. 6% ST. REGIS PAPER COMPANY NOTES RECEIVABLE:

The notes may be converted into St. Regis common stock at (after giving effect to the December 1973 stock split of three new shares for each two previously held), $38 (U.S.) per share until January 2, 1976. The quoted market value of St. Regis common shares (after the stock split) was approximately $34 (U.S.) at December 31, 1973 (1972 — $30 U.S.).

3. INVESTMENT IN AND ADVANCES TO NON-CONTROLLED COMPANIES:

Pursuant to an agreement, North Canadian Oils Limited joined with others in the formation of two companies for the purpose of participating in off-shore exploration ventures.

As at December 31, 1973, the Company had purchased 40,000 shares for an aggregate consideration of $40,000 and advanced $1,110,361 (U.S.) which amount is carried in the accompanying balance sheet at the equivalent rate of exchange in effect at the time of the advances. Neither company had producing operations in 1973.

4. PROPERTY, PLANT AND EQUIPMENT:

	1973		1972	
	Cost	Accumulated Depreciation and Depletion	Cost	Accumulated Depreciation and Depletion
Petroleum and natural gas leases, rights, exploration and development costs and related equipment thereon (Note 1)	$16,955,478	$2,978,968	$14,230,334	$2,703,000
Developed sub-lease	650,000	430,758	650,000	27,683
Land, pipeline, building and other equipment	5,313,601	3,482,039	5,264,823	3,299,684
	$22,919,079	$6,891,765	$20,145,157	$6,030,367

5. LONG TERM DEBT:

	1973		1972	
	Due Within One Year	Long Term Portion	Due Within One Year	Long Term Portion
6% Series A Secured Notes maturing October 1, 1979 . . .	$225,000	$1,855,000	$225,000	$2,080,000
5½% Series B Secured Notes ($1,920,000 U.S., 1972 $2,127,500 U.S.) maturing October 1, 1979	206,657	1,838,679	208,408	2,061,552
6% Mortgage, repayable in quarterly instalments of $5,000 plus interest, maturing March 1, 1977	20,000	45,000	20,000	65,000
Bank loan	—	2,350,000	—	2,500,000
5½% Mortgage, due March 5, 1982	—	5,275	—	5,737
	$451,657	$6,093,954	$453,408	$6,712,289

The bank loan is secured by $3,000,000 of 6% of St. Regis Paper Company convertible notes, due January 1, 1984. Although the loan is subject to call on demand, the agreement requires repayment in June 1975. The 6% mortgage is secured by the office building.

The Series A and B Notes are secured by a first mortgage on the Company's gas pipeline, its interests in certain gas fields and the related gas purchase and sales contracts.

Sinking fund instalments are required on October 1 of each of the following years:

	Series A (Canadian)	Series B (U.S.)
1974	$225,000	$207,000
1975 to 1978 (inclusive)	250,000	230,000
Balance in 1979	855,000	792,500

These notes may be redeemed prior to maturity at a premium of 2.5% (Canadian) and 2.28% (U.S.) until October 1, 1974. The premium then decreases .5 of 1% per year on Series A Notes and .46 of 1% on Series B Notes with no premium on redemptions made after October 1, 1978.

The current portion of the Series B Notes represents the Canadian dollar equivalent payable within one year. The long term portion represents the Canadian dollar equivalent of United States dollars on the date of receipt.

6. CAPITAL STOCK AND STOCK OPTIONS:

Under the terms of issue of its preferred shares, the Company is required to purchase for cancellation 2,000 preferred shares in each year. The shares may be redeemed from the holders on 30 days notice at a premium of 1.75% of par value (reducing .25 of 1% per year to June 1, 1975) or purchased on the market. At December 31, 1973, requirements to June 1, 1973 had been met and in addition 2,000 shares applicable to June 1, 1974 and 958 shares applicable to June 1, 1975, have been cancelled (3,170 were purchased and cancelled in 1973). The preferred share indenture imposes certain restrictions on the payment of common share dividends.

During the year the Company issued 8,336 common shares for a total consideration of $47,465 under the employees' stock option plan. Of the $47,465, $2,084 was credited to capital stock and $45,381 was credited to contributed surplus.

Payment for 6,668 shares issued for $38,108 under the stock option plan was accepted by the Company in the form of notes receivable. The notes which are secured by the purchased shares are non-interest bearing until they mature at which time they bear interest at 8%. They become due at the earlier of the date of voluntary termination of employment of the optionee, the date of sale of the purchased shares or ten years from the subscription date. The notes receivable in the amount of $140,950 ($112,900 of which is due from directors and a retired officer) are carried on the balance sheet under the other assets.

During the year the Company granted to certain employees options to purchase 15,000 shares at prices ranging from $5.56 per share to $5.99 per share. At December 31, 1973 there remained outstanding options to purchase 22,500 shares at prices ranging from $5.56 per share to $5.99 per share.

The options are exercisable cumulatively in three equal installments within a five year period with the first installment exercisable one year after the date granting the option. At December 31, 1973 there were 12,500 shares reserved for future options under the plan.

7. INCOME TAXES:

For income tax purposes the Company is entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances in amounts which may exceed the related expenses reflected in its accounts.

Undepreciated capital cost (to the maximum amount permitted in any one year by the Income Tax Regulations) remaining to be carried forward and applied against future taxable income at December 31, 1973 is $2,856,000.

The Company provides for deferred income taxes on timing differences between depreciation and capital cost allowances. If the tax allocation basis had been followed for all timing differences between taxable income and reported income, additional deferred income taxes of $752,000 ($669,000 in 1972) would have been provided and net income for the year would have been reduced accordingly. The accumulated income tax reductions relating to all timing differences in the current and prior year amount to approximately $4,540,000 at December 31, 1973. Although the Company's tax accounting method with respect to drilling, exploration and lease acquisition costs is consistent with the prevailing practice in the oil and gas industry in Canada, certain regulatory bodies have questioned the appropriateness of such practice (the flow through method) and it is presently being studied. Such regulatory bodies have indicated that unless they are satisfied with the flow through method, companies in the oil and gas industry should be prepared to adopt tax allocation accounting in 1974.

8. AMOUNTS PAID TO DIRECTORS AND SENIOR OFFICERS:

The aggregate direct remuneration paid or payable in 1973 to the directors and senior officers of the Company amounted to $115,580 ($111,610 in 1972). During the year there were a total of seven directors and five officers of whom two served in both capacities.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of North Canadian Oils Limited as at December 31, 1973 and the statements of income, retained earnings, capital redemption reserve fund and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary under the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1973 and the results of its operations and the source and use of its funds for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of accounting for exploration and development costs referred to in Note 1, on a basis consistent with that of the preceding year.

Calgary, Alberta
February 15, 1974.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

FIVE YEAR REVIEW

Financial	1973	1972*	1971*	1970*	1969*
Revenue					
Sale of oil and gas	$ 5,072,229	$ 4,081,239	$ 3,945,434	$ 3,443,992	$ 3,162,127
Less royalties	407,108	233,360	257,540	177,947	129,403
	4,665,121	3,847,879	3,687,894	3,266,045	3,032,724
Interest income	917,549	929,931	1,020,992	1,011,987	920,020
Building, rental and miscellaneous	149,816	156,147	149,603	163,026	101,515
	$ 5,732,486	$ 4,933,957	$ 4,858,489	$ 4,441,058	$ 4,054,259
Expenses					
Operating and Administrative expenses	1,880,803	1,620,032	1,474,192	1,404,699	1,374,081
Interest expense	430,044	409,454	445,537	452,426	364,677
	$ 2,310,847	$ 2,029,486	$ 1,919,729	$ 1,857,125	$ 1,738,758
Cash generated by operations	3,421,639	2,904,471	2,938,760	2,583,933	2,315,501
Per Common Share	61¢	52¢	52¢	46¢	42¢
Depreciation and Depletion	883,891	612,000	558,493	441,000	378,000
Income before Income Taxes and Extraordinary items	2,537,748	2,292,471	2,380,267	2,142,933	1,937,501
Income Taxes					
Current	183,000	134,486	320,450	452,390	185,000
Deferred	61,000	48,000	66,000	105,000	105,000
	244,000	182,486	386,450	557,390	290,000
Net Income before Extraordinary items	$ 2,293,748	$ 2,109,985	$ 1,993,817	$ 1,585,543	$ 1,647,501
Per Common Share	39¢	35¢	33¢	26¢	27¢
Extraordinary items - Gain (Loss)	—	—	—	—	(1) 8,471,758
Per share					$1.52
Net income	$ 2,293,748	$ 2,109,985	$ 1,993,817	$ 1,585,543	$10,119,259
Per Common Share	39¢	35¢	33¢	26¢	$1.79
Working Capital	327,944	698,461	717,401	683,614	877,709
Investments	16,165,400	16,154,938	16,035,875	16,021,375	15,000,000
Property and Equipment - Net	16,027,314	14,114,790	12,232,924	10,842,199	9,668,112
Long Term Debt	6,093,954	6,712,289	6,680,730	7,149,019	6,610,431
Shares Outstanding					
Common - par value 25¢ per share	5,626,665	5,618,329	5,602,497	5,586,665	5,586,665
Preferred - par value $50 per share	39,042	42,212	44,352	46,522	49,101
Shareholders' Equity	25,720,753	23,647,884	21,674,334	19,824,318	18,497,490
Cost of Finding & Developing Reserves					
Exploration	1,922,000	1,034,530	1,305,385	313,679	290,586
Development	968,000	1,426,713	600,745	1,243,793	1,733,963

(1) Gain on sale of investment in North Western Pulp & Power Ltd.
* Restated

Production and Sales	1973	1972	1971	1970	1969
Natural Gas Sales					
Production - billion cubic feet	14.5	14.3	14.5	11.9	9.8
Pipeline - billion cubic feet	4.9	4.8	4.6	4.4	4.6
Total Sales - billion cubic feet	19.4	19.1	19.1	16.3	14.4
Average per day - million cubic feet	53.2	52.4	52.4	44.7	39.5
Oil Production - barrels	226,469	68,919	58,540	54,929	54,154

DIRECTORS

PAUL H. AUSTIN
President,
Mercantile Bank of Canada,
Montreal, Quebec.

JAMES W. DOWDEN
Calgary, Alberta.

C. M. HAMILTON
Consultant,
Calgary, Alberta.

MARSHALL A. JACOBS
Lawyer,
New York, New York.

ROSS A. MacKIMMIE, Q.C.
Lawyer,
Calgary, Alberta.

IVAN SUTHERLAND
Vice-President,
North Western Pulp and Power,
Hinton, Alberta.

ROBERT F. RUBEN
Calgary, Alberta.

OFFICERS

ROBERT F. RUBEN
President

JAMES W. DOWDEN
Vice-President, Exploration

NATHAN GOODMAN
Vice-President, Production

CHARLES K. LOUGH
Secretary-Treasurer

KEY PERSONNEL

W. K. MILLER
Manager, Gas Transmission

D. E. MACDOUGALL
Chief Geologist

B. L. COOK
Land Manager

W. E. MACDOUGALL
Chief Accountant

CAPITAL

7,500,000 Common Shares having a Par Value of Twenty-five Cents per Share

Issued 5,626,665

70,000 Preferred Shares having a Par Value of $50.00 per Share.

Issued 39,042

COMMON SHARE REGISTRARS

GUARANTY TRUST COMPANY OF CANADA . . . . Calgary, Alberta

THE BANK OF NOVA SCOTIA TRUST COMPANY OF NEW YORK . . . New York City, U.S.A.

COMMON SHARE TRANSFER AGENTS

GUARANTY TRUST COMPANY OF CANADA . . . . . . Calgary and Toronto

THE BANK OF NOVA SCOTIA TRUST COMPANY OF NEW YORK . . . New York City, U.S.A.

PREFERRED SHARE REGISTRAR AND TRANSFER AGENTS

GUARANTY TRUST COMPANY OF CANADA . . . . Calgary and Toronto

COMMON SHARES LISTED

AMERICAN STOCK EXCHANGE
TORONTO STOCK EXCHANGE

PREFERRED SHARES LISTED

TORONTO STOCK EXCHANGE . . . . . . Toronto

AUDITORS

PEAT, MARWICK, MITCHELL & CO. . . Calgary, Alberta

HEAD OFFICE

640 Seventh Avenue Southwest . . . Calgary, Alberta

NORTH CANADIAN OILS LIMITED 640 Seventh Avenue Southwest, Calgary, Canada T2P 0Y5

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